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Counter-Terrorist Financing – A Good Policy Going Too Far?

- **How can terrorist financing be interfered with?**
- **Is counter-terrorist financing achieving its stated aims?**
- **Is counter-terrorist financing effective and efficient?**

Summary: 'The money trail' of terrorist activity has become a focus of counterterrorist policy. There has been major success in implementing international standards to prevent and detect terrorist financing. Available evidence suggests that these efforts have contributed to a decrease in transnational terrorist activity. In the wake, they are likely to have contributed to a shift from transnational to "home grown" terrorism. Partly because of this change, and partly because of the continuous expansion of counter-terrorist-financing costs have begun to outweigh the costs of additional measures.

Introduction

Efforts to deprive terrorist groups of the financial means to operate have been one of the major approaches to counter terrorism. Expectations of the contribution counter-terrorist financing can make sometimes run high. For instance, the US government stated in its 2003 National Strategy to combat terrorism: "with the cooperation of our partners and appropriate international organizations, we will continue our aggressive plan to eliminate the sources of terrorist financing" (United States 2003). In a speech on September 8, 2011, US Treasury Secretary Timothy Geithner said: "combating terrorist financing continues to be a central part of our nation's, and other nations', counter-terrorism strategies." [1].

Fostered by determined political support emanating from the United States, a quite elaborate and comprehensive global system of counter-terrorism financing has been set up. It is implemented by governments, but international organizations such as the United Nations (UN) and the Financial Action Task Force (FATF) play an important role, as do private actors, such as banks. The system has considerable costs, for the financial sector as well as its customers. Furthermore, it has serious

[1] http://iipdigital.usembassy.gov/st/english/texttrans/2011/09/20110908125802su0.8468068.html#axzz1Ysnqmc3M

implications for relationships between financial actors and their customers, as well as the fundamental rights of individuals affected by the system.

It is argued here that counter-terrorist financing has had notable success in suppressing terrorism. There is evidence that it has made it more difficult for transnational terrorist groups to operate and has contributed to the reduction of their importance.

However, counter-terrorist financing can only target certain types of terrorist behavior and activity. Furthermore, terrorist groups have adapted to counter-terrorism financing. As a result, counter-terrorism financing has contributed to a shift away from transnational terrorism to 'home-grown' or domestic terrorism. In consequence, the importance of counter-terrorist financing in suppressing terrorist activity has decreased with its success.

Counter-terrorism financing need to better target those types of behavior and activity it can influence

At the same time, counter-terrorism financing has grown in scope and costs. One reason for the continuing expansion of counter-terrorist financing activity is the difficulty to assess the effectiveness of these activities. While assessments of counter-terrorism financing are frequent, they focus on the implementation of an expanding range of measures but not on evidence that these measures are effective in reducing terrorism.

Counter-terrorist financing should remain an element of the fight against terrorism. But its limitations need to be better understood. Furthermore, it should become better targeted on those types of behavior and activity it can influence. Better targeting will also reduce costs.

The instruments of counter-terrorist financing

Counter-terrorist financing rests on two pillars. One is the freezing of assets of groups and individuals judged to be involved in or supporting terrorism by relevant political authorities such as the UN, the European Union (EU) or individual governments. Asset freezes are particularly effective when newly introduced. Once organizations and individuals are on terrorist lists, they avoid holding assets that can easily be frozen. In addition to some organizations, such as Al-Qaeda and the Taliban, a few thousand individuals are on the various terrorist lists. Some of the most controversial freezes were those that hit charities judged by the relevant authorities to have transferred funds to terrorist organizations.

The amounts of terrorist assets frozen are not very large compared to the estimates of financial means available to terrorist organizations. Schneider and Caruso have estimated the total annual budget of all Islamist groups involved in terrorism at 100-150 million US $ in the early 2000s (Schneider and Caruso 2011). While substantial amounts of assets were frozen in the aftermath of the September 11 attacks, the amounts have not grown much thereafter. Recent global data is not available but the data for the United States in table 1 is a good indicator of overall trends.

The second pillar of counter-terrorist financing addresses financial transactions. Since 2001, banks and an increasing number of other private actors involved in financial transactions have been

Organisation	2003	2007	2010
AL-QAEDA	3.9	11.3	13.5
HAMAS	5.9	8.7	2.6
HEZBOLLAH /(since 2006)	-	0.4	0.8
Other	0.1	0.2	0.7

Table 1 Counter-terrorist financing asset freezes by the United States Treasury in Millions of USD (Source: United States, U.S. Department of the Treasury. Office of Foreign Asset Control, Terrorist Assets Report, various years).

required to report suspicious financial activities related to terrorism. This occurs within the system set up to counter money laundering. While there is considerable overlap between these two issues, there are also important differences between efforts to counter money laundering and terrorist financing. In particular, counter-terrorist financing has the double purpose to prevent financial transactions of terrorists as well as to get evidence on links between terrorist groups and individuals by "following the money trail". Despite the adoption of common international standards, country practices of reporting on suspicious activities differ widely. Among members of the European Union for instance, the number of reports in 2008 ranged between 62 for Hungary and 295,464 for the Netherlands (Eurostat 2010).

Success and limitations

The number of reports concerning suspicious transactions or activities by financial actors is quite large (see table 2). The number of known cases where reports were important in preventing terrorist attacks or in detecting terrorist networks, however, is comparatively small (Brzoska, 2009, 2011). The UN expert group charged with reviewing the implementation of financial sanctions against Al-Qaeda and the Taliban reported in April 2011 that it knew of virtually "no cases where suspicious transaction reports have led to prosecutions or even investigations of Al-Qaida or Taliban related criminality". (United Nations 2011).

	15-8 – 31-12 2002	2003	2005	2007	2009
Total number	2,271	6,602	8,241	9,080	9,046
Suspected 'financing of terrorism'	90	127	104	90	98
Share	4%	2%	1.3%	0.9%	1.1%

Table 2 Suspicious transaction reports filed with German authorities for selected years (source: Bundeskriminalamt, various years)

The balance between transnational and 'home-grown' terrorism has shifted, globally and in Europe

However, it would be premature to measure the effectiveness of reports on suspicious transactions on such criteria only. In addition to prevention and detection, their deterrent effect needs to be considered. There is some evidence that financial transactions, particularly from outside sources, have become less important in funding terrorist networks and activities since 2001. Particularly striking is the decline of Al-Qaeda, both as an organization conducting terrorist attacks itself and supporting other groups with financial means (Gunaratna 2008).

Another indicator of the success of counter-terrorist financing is the general shift in terrorist activity that has occurred in the last few years. The available data suggests that the balance between transnational and 'home-grown' terrorism has shifted, globally and in Europe (Enders, Sandler and Gaibulloev 2011). While other factors, such as improved international cooperation in counterterrorism, have contributed to this shift, it could also be attributed to improved counter-terrorist financing (Brzoska 2009).

Costs of counter-terrorist financing

Counter-terrorist financing has direct, indirect and intangible costs. Direct costs accrue to banks, insurances and other financial actors, for instance through the requirement to operate systems capable of detecting suspicious transactions. Indirect costs include the additional costs for customers of traditional money transfer systems, such as the Hawala network, through new requirements on data reporting and accountability. Intangible costs have attracted the most attention. In the wake of growing requirements of detecting suspicious transactions, bank and other financial actors have been required to report an increasing amount of data to relevant authorities, often without their customers' knowledge. The degree of privacy in financial matters has been reduced.

It is difficult to estimate the costs of counter-terrorist financing. One important reason is that counter-terrorist financing and efforts to reduce money laundering largely overlap. Thus it is impossible to disentangle the costs of counter-terrorist financing and efforts against money laundering. Even rough estimates are fraught with difficulties. While counter-terrorist financing is much less significant than money laundering in terms of quantities, for instance suspicious transaction reports (see table 3), it has been a driver for the tightening of control over financial transactions. The international system of financial controls started out with an emphasis on money laundering, but it received a major push after the September 11, 2001 attacks in the United States. It is unlikely that efforts against money laundering would have developed as much as they have done without the strong political support for counter-terrorist financing.

Current assessment methods add to the tendency of expanding the scope and intensity of counter-terrorism financing

Location	Year	Estimated costs to conduct attack
New York, Washington	(9/11) 2001	€ 300.000-370.000
Casablanca	2003	€ 4.000
Madrid	(11/3) 2004	€ 20.000
London	(7/7) 2005	€ 15.000
Istanbul	2008	€ 10.000
Oslo	2011	€20.000

Table 3 Estimated costs of terrorist attacks (sources: Own estimates and Krieger and Meirrieks 2011).

But even if lumped together, the costs of counter-terrorist financing and money laundering are hard to assess. Estimates of the costs for financial agents, such as banks, differ widely, from minor to substantial (Brzoska 2011, Bures 2010).

Assessments of effectiveness under uncertainty

Counter-terrorist financing has been very successful as a policy instrument. The Financial Action Task Force (FATF) recommendations have become an international standard. The degree of adherence to the rules set by the FATF by national authorities is very high compared to other international agreements. Adherence to the recommendations is based on strong policy measures. Particularly important are assessments of implementations, such as the peer-reviews conducted under the auspices of international organizations such as the FATF.

These assessments provide a lot of information on legal and institutional arrangements in the field of counter-terrorist financing as well as the implementation of the relevant FAFT regulations. However, they rarely contain information on the effectiveness of counter-terrorism financing in terms of reducing terrorism, nor are they concerned with the various costs of counter-terrorism financing. Furthermore, through their focus on detecting and exposing gaps in implementation, they add to the tendency, inherent in the current system, of expanding the scope and intensity of counter-terrorist financing (Brzoska 2011).

Most available assessment are poor foundations for evidence-based policies, as they contain neither measures of the success of counter-terrorist financing in terms of reducing terrorism nor of the costs of these measures. This is partly the result of the setup of international counter-terrorism financing, which starts from the presumption of the overarching importance of controlling finances and financial transactions as an instrument in the fight against terrorism. But it also stems from the difficulty of measuring success of counter-terrorism financing. Similar to other policies in high-risk areas, counter-terrorism financing is driven by historical precedents and worst-case scenarios, rather than cost-benefit analysis.

Policy recommendations

Counter-terrorist financing continues to be a useful instrument in the fight against terrorism, though its scope is more limited now than ten years ago. One reason for this is that transnational terrorist networks, particularly Al-Qaeda, have been weakened - to some degree by counter-terrorist financing. Another is that terrorists have adapted to the new realities. A substitution effect has been stimulated, from externally funded to locally organized terrorist attacks. Evidence over the last decade indicates that counter-terrorist financing can be important in detecting networks among terrorists, albeit most often after terrorist attacks. Its importance in prevention of terrorist attacks, however, seems to be limited.

Such assessments are, unfortunately, not based on solid evidence. A first policy recommendation therefore pertains to the need for broader assessments than those currently undertaken. In addition to the identification of gaps in implementation, it is necessary to assess the effectiveness of counter-terrorist financing in terms of reducing terrorism, including consideration of substitution effects. Costs estimates also should be part of such broader assessment.

A second policy recommendation refers to the better targeting of counter-terrorist financing. Counter-terrorist financing currently resembles a shot-gun approach to policy. More targeted policies, aiming at a smaller number of relevant actors instead of a general approach based on weak criteria of 'suspicion' is clearly preferable. Some steps in this direction have already been taken. However, more needs to be done.

Counter-terrorism financing must be firmly rooted within 'normal' police investigations

This would also facilitate a third recommendation, namely to more firmly root counter-terrorist financing within 'normal' routines of police investigations and the general legal framework. Counter-terrorist financing, including both asset freezing and the control of financial transactions, are, in some parts, 'extraordinary' measures, outside of that framework. This pertains, for instance, to the freezing of assets of individuals outside of legal proceedings against them.

Summing up, the recommendation is to strengthen evidence-based policy in the field of counter-terrorist financing. Counter-terrorist financing is needed, but with costs concomitant to its success in suppressing terrorism.

Credits

This EUSECON Policy Briefing was authored by Michael Brzoska from the Institute for Peace Research and Security Policy at the University of Hamburg. The views expressed in this briefing are the authors' alone.

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